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DEPARTMENT OF AUDITOR-CONTROLLER**

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February 27, 2019

TO: Supervisor Janice Hahn, Chair
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Kathryn Barger

FROM: John Naimo 
Auditor-Controller

SUBJECT: **AUDIT OF THE HOMELESS AND HOUSING MEASURE H SPECIAL REVENUE
FUND FOR THE YEAR ENDED JUNE 30, 2018**

Attached is the independently audited report for the County of Los Angeles Homeless and Housing Measure H Special Revenue Fund (Measure H) Schedule of Revenues and Expenditures and Changes in Fund Balance (Schedule) for the year ended June 30, 2018. We contracted with an independent Certified Public Accounting firm, BCA Watson Rice LLP (BCA or auditor), to perform the audit under the Auditor-Controller's master agreement for audit services. BCA's report (Attachment I) concludes that the Schedule is presented fairly in conformance with generally accepted accounting principles. The auditor did identify two areas where deficiencies in internal controls existed. The attached report dated December 31, 2018, describes these deficiencies and the recommended corrective action. The County's response to these recommendations is also included in the report.

We also engaged the auditors to complete an Agreed Upon Procedures review to ensure that Measure H funding was being used as intended by the voter approved Measure. The auditor's report (Attachment II) is also attached.

If you have any questions please call me, or your staff may contact Connie Yee at (213) 974-0681.

JN:AB:CY:RL:RA

H:\Special Funds\Special Funds Unit\AUDITS\RP&OSD\FY 17-18 Audit\Final Report\FY 2017-18 Audit Report Cover Letter BOS.docx

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Celia Zavala, Executive Officer, Board of Supervisors
Audit Committee
Countywide Communications

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Attachment I

County of Los Angeles

Independent Auditor's Report On Schedule of Revenues and Expenditures and Changes in Fund Balance

HOMELESS AND HOUSING MEASURE H SPECIAL REVENUE FUND

For the Fiscal Year Ended June 30, 2018



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County of Los Angeles
Independent Auditor's Report on
Schedule of Revenues and Expenditures and Changes in Fund Balance
For
Homeless and Housing Measure H Special Revenue Fund

For The Fiscal Year Ended June 30, 2018

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Independent Auditor's Report

Mr. John Naimo
Auditor-Controller
County of Los Angeles
Los Angeles, California

Report on the Schedule of Homeless and Housing Measure H Revenues and Expenditures

We have audited the accompanying Schedule of Homeless and Housing Measure H (Measure H) Revenues and Expenditures and Changes in Fund Balance (the Schedule) of the County of Los Angeles (the County) for the fiscal year ended June 30, 2018, and the related notes to the Schedule, which collectively comprise the County's basic Schedule as listed in the table of contents.

Management's Responsibility for the Schedule of Measure H Revenues and Expenditures

The County's management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above present fairly, in all material respects, the Measure H Revenues and Expenditures of the County for the fiscal year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 12 and 13 be presented to supplement the Schedule. Such information, although not a part of the basic Schedule, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic Schedule in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic Schedule, and other knowledge we obtained during our audit of the basic Schedule. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

As discussed in Note 2 to the Schedule, the accompanying Schedule of the Measure H Special Revenue Fund is intended to present the revenues and expenditures attributable to the Fund. They do not purport to, and do not, present fairly the financial position of the County, as of June 30, 2018, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

BCA Watson Rice, LLP

Torrance, CA
December 31, 2018

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Schedule of Revenues and Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2018

Revenues:

| | |
|------------------------------|--------------------|
| Voter Approved Special Taxes | \$ 259,966,348 |
| Investment Loss (Note 2) | <u>(628,643)</u> |
| Total Revenues | <u>259,337,705</u> |

Expenditures

A: Prevent Homelessness

| | <i>Strategy by Department/ Agency:</i> | <i>Total by Strategy</i> | <i>Total by Objective</i> |
|---|--|------------------------------|-------------------------------|
| A1: Homeless Prevention Program for Families | | | |
| Los Angeles Homeless Services Authority (Note 5) | <u>\$ 1,941,697</u> | | |
| Total A1: Homeless Prevention Program for Families | | \$ 1,941,697 | |
| A5: Homeless Prevention Program for Individuals | | | |
| Los Angeles Homeless Services Authority (Note 5) | <u>1,401,039</u> | | |
| Total A5: Homeless Prevention Program for Individuals | | <u>1,401,039</u> | |
| Total A: Prevent Homelessness | | | \$ 3,342,736 |

B: Subsidize Housing

| | | | |
|---|-------------------|-------------------|------------|
| B1: Provide Subsidized Housing to Homeless Disabled Individuals Pursuing Supplemental Security Income (SSI) | | | |
| Department of Public Social Services | <u>2,588,974</u> | | |
| Total B1: Provide Subsidized Housing to Homeless Disabled Individuals Pursuing SSI | | 2,588,974 | |
| B3: Partner with Cities to Expand Rapid Re-Housing | | | |
| Department of Health Services (Note 4) | 10,418,408 | | |
| Los Angeles Homeless Services Authority (Note 5) | <u>30,310,216</u> | | |
| Total B3: Partner with Cities to Expand Rapid Re-Housing | | 40,728,624 | |
| B4: Facilitate Utilization of Federal Housing Subsidies | | | |
| Housing Authority County of Los Angeles | <u>2,540,941</u> | | |
| Total B4: Facilitate Utilization of Federal Housing Subsidies | | 2,540,941 | |
| B6: Family Reunification Housing Subsidy | | | |
| Department of Children and Family Services | <u>87,900</u> | | |
| Total B6: Family Reunification Housing Subsidy | | 87,900 | |
| B7: Interim/ Bridge Housing for Those Exiting Institutions | | | |
| Los Angeles Homeless Services Authority (Note 5) | 136,542 | | |
| Department of Health Services (Note 4) | 9,560,779 | | |
| Department of Mental Health | 30,671 | | |
| Department of Public Health | <u>1,593,201</u> | | |
| Total B7: Interim/ Bridge Housing for Those Exiting Institutions | | <u>11,321,193</u> | |
| Total B: Subsidize Housing | | | 57,267,632 |

Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance are an integral part of this Schedule.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Schedule of Revenues and Expenditures and Changes in Fund Balance (Continued)
For the Fiscal Year Ended June 30, 2018

| | <i>Strategy by Department/ Agency:</i> | <i>Total by Strategy</i> | <i>Total by Objective</i> |
|---|--|------------------------------|-------------------------------|
| C: Increase Income | | | |
| C4: Establish a Countywide SSI Advocacy Program for People Experiencing Homelessness or at Risk of Homelessness | | | |
| Department of Health Services (Note 4) | 5,687,953 | | |
| Department of Mental Health | <u>530,225</u> | | |
| Total C4: Establish a Countywide SSI Advocacy Program | | 6,218,178 | |
| C7: Subsidized Employment for Homeless Adults | | | |
| Department of Workforce Development, Aging, and Community Services | <u>3,243,282</u> | | |
| Total C7: Subsidized Employment for Homeless Adults | | <u>3,243,282</u> | |
| Total C: Increase Income | | | 9,461,460 |
| D: Provide Case Management and Services | | | |
| D6: Criminal Record Clearing Project | | | |
| Department of Public Defender | <u>316,868</u> | | |
| Total D6: Criminal Record Clearing Project | | 316,868 | |
| D7: Provide Services and Rental Subsidies for Permanent Supportive Housing (PSH) | | | |
| Department of Health Services (Note 4) | 21,431,789 | | |
| Department of Mental Health | 494,683 | | |
| Department of Public Health | <u>56,024</u> | | |
| Total D7: Provide Services and Rental Subsidies for PSH | | 21,982,496 | |
| Total D: Provide Case Management and Services | | | 22,299,364 |
| E: Create a Coordinated System | | | |
| E6: Countywide Outreach System | | | |
| Department of Health Services (Note 4) | 4,360,881 | | |
| Los Angeles Homeless Services Authority (Note 5) | 2,859,539 | | |
| Department of Mental Health | <u>114,629</u> | | |
| Total E6: Countywide Outreach System | | 7,335,049 | |
| E7: Strengthen the Coordinated Entry System | | | |
| Los Angeles Homeless Services Authority (Note 5) | <u>11,805,821</u> | | |
| Total E7: Strengthen the Coordinated Entry System | | 11,805,821 | |

Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance are an integral part of this Schedule.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Schedule of Revenues and Expenditures and Changes in Fund Balance (Continued)
For the Fiscal Year Ended June 30, 2018

| | <i>Strategy by Department/ Agency:</i> | <i>Total by Strategy</i> | <i>Total by Objective</i> |
|---|--|------------------------------|-------------------------------|
| E8: Enhance the Emergency Shelter System | | | |
| Department of Health Services (Note 4) | 4,862,132 | | |
| Los Angeles Homeless Services Authority (Note 5) | 37,660,574 | | |
| Department of Mental Health | 29,871 | | |
| Total E8: Enhance the Emergency Shelter System | | 42,552,577 | |
| E14: Enhanced Services for Transition Age Youth | | | |
| Los Angeles Homeless Services Authority (Note 5) | 2,238,431 | | |
| Total E14: Enhanced Services for Transition Age Youth | | 2,238,431 | |
| Total E: Create a Coordinated System | | | 63,931,878 |
| F: Increase Affordable/Homeless Housing | | | |
| F7: One-Time Housing Innovation Fund | | | |
| Chief Executive Office | 137,500 | | |
| Community Development Commission (Note 3) | 10,000,000 | | |
| Total F7: One-Time Housing Innovation Fund | | 10,137,500 | |
| Total F: Increase Affordable/Homeless Housing | | | 10,137,500 |
| Administrative: | | | |
| Homeless Initiative Administration | | 841,726 | |
| Total Administrative | | | 841,726 |
| Total Expenditures | | | 167,282,296 |
| Excess of Revenues Over Expenditures | | | 92,055,409 |
| Net Change in Fund Balance | | | 92,055,409 |
| Fund Balance, July 1, 2017 | | | - |
| Fund Balance, June 30, 2018 | | | \$ 92,055,409 |

Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance are an integral part of this Schedule.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance
June 30, 2018

The Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance are summaries of significant accounting policies and other disclosures considered necessary for a clear understanding of the accompanying Schedule of Revenues and Expenditures.

1. Organization

General

The County of Los Angeles (County), which was established in 1850, is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected five-member Board of Supervisors, which, as the governing body of the County, is responsible for the legislative and executive control of the County.

Homeless and Housing Measure H Special Revenue Fund

Measure H, also known as the Transaction and Use Tax to Prevent and Combat Homelessness Ordinance (Los Angeles County Code, Chapter 4.73) is a special revenue fund of the County used to account for the proceeds of the voter-approved quarter-cent county-wide sales tax that became effective in March 2017. The California Board of Equalization began collecting the Measure H quarter-cent sales tax from businesses and consumers in October 2017. Revenues collected are required to be expended by the County pursuant to an expenditure plan approved by the Board of Supervisors prior to June 30th of each fiscal year. The fiscal year (FY) 2017-18 Board approved expenditure plan funded 19 Homeless Initiative strategies to combat the homeless crisis in Los Angeles County. The funding was allocated to the following County Departments and outside agencies: the Chief Executive Office (CEO), the Department of Children and Family Services (DCFS), the Department of Health Services (DHS), the Department of Mental Health (DMH), the Department of Public Health (DPH), the Department of Public Social Services (DPSS), Public Defender (PD), Workforce Development, Aging and Community Services (WDACS), the Community Development Commission (CDC), the Housing Authority of the County of Los Angeles (HACoLA), and the Los Angeles Homeless Services Authority (LAHSA).

These strategies were divided into the following six areas:

Strategy A - Preventing Homelessness - Combating homelessness requires reducing the number of families and individuals who have become homeless and helping currently homeless families and individuals move into permanent housing.

Strategy B - Subsidize Housing - Homeless families and individuals lack sufficient income to pay rent on an ongoing basis due to the high cost of housing in Los Angeles County. Subsidizing rent and related housing costs is key to enabling homeless families and individuals to secure and retain permanent housing and to prevent families and individuals from becoming homeless.

Strategy C - Increase Income - A high percentage of homeless adults can increase their income through employment and qualified disabled homeless individuals can increase their income through federal disability benefits. This increase in income can assist homeless families and individuals pay for their own housing in the future.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance
June 30, 2018

1. Organization (Continued)

Homeless and Housing Measure H Special Revenue Fund (Continued)

Strategy D - Provide Case Management and Services - The availability of appropriate case management and supportive services is critical to enable homeless families and individuals to take advantage of an available rental subsidy, increase their income, and access/utilize available services and benefits. Since the specific needs of homeless families and individuals vary depending on their circumstances, they need case management and supportive services to secure and maintain permanent housing.

Strategy E - Create a Coordinated System - Homeless individuals, families and youth often encounter multiple County departments, city agencies and community-based providers based on their complex individual needs. This fragmentation is often exacerbated by lack of coordination of services, disparate eligibility requirements, funding streams, and bureaucratic processes. A coordinated system brings together homeless and mainstream services to maximize the efficiency of current programs and expenditures.

Strategy F - Increase Affordable Homeless Housing - The lack of affordable housing for the homeless contributes substantially to the current crisis of homelessness. The County and cities throughout the region can increase the availability of both affordable and homeless housing through a combination of land use policy and subsidies for housing development.

2. Summary of Significant Accounting Policies

The Schedule of Revenues and Expenditures and Changes in Fund Balance for the Homeless and Housing Measure H Special Revenue Fund (the Schedule) has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments. The most significant of the County's accounting policies with regard to the special revenue fund type are described below:

Fund Accounting

The County utilizes fund accounting to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary, and fiduciary. Governmental Funds are used to account for most of the County's governmental activities. The measurement focus is a determination of changes in financial position, rather than a net income determination. The County uses governmental fund type Special Revenue Fund to account for Measure H sales tax revenues and expenditures. Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance
June 30, 2018

2. Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The modified accrual basis of accounting is used for the special revenue fund type. Under the modified accrual basis of accounting, revenues (primarily from sales tax) are recorded when susceptible to accrual, which means measurable (amount can be determined) and available (collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period). Expenditures are generally recorded when a liability is incurred.

Investment Loss

The County maintains a pooled cash and investments account that is available for use by all funds, except those restricted by State statutes. For the fiscal year ended June 30, 2018, the Homeless and Housing Measure H Special Revenue Fund had an investment loss of \$628,643 primarily due to a fair market value adjustment required under GASB Statement No. 31.

Use of Estimates

The preparation of the Schedule in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Schedule of Revenues and Expenditures and Changes in Fund Balance for Measure H Special Revenue Fund

The Schedule is intended to reflect the revenues and expenditures of the Homeless and Housing Measure H Special Revenue fund only. Accordingly, the Schedule does not purport to, and does not, present fairly the financial position of the County and changes in financial position thereof for the year then ended in conformity with Generally Accepted Accounting Principles in the United States of America.

The audited financial statements for the Homeless and Housing Measure H Special Revenue Fund for the fiscal year ended June 30, 2018 are included in the County's Audited Comprehensive Annual Financial Report (CAFR), which can be found at <http://auditor.lacounty.gov/wp-content/uploads/2019/01/CAFR-FY-2017-2018.pdf>.

3. Community Development Commission

For the year ended June 30, 2018, the County disbursed \$10 million to CDC to finance the development and preservation of homeless housing through the Commission's Notice of Funding Availability (NOFA) process. The funding will be used to support the development and preservation of homeless housing in areas of the County where there is an urgent need for housing under Measure H eligible Homeless Initiative Strategy F7 - Preserve Current Affordable Housing and Promote the Development of Affordable Housing for Homeless Families and Individuals.

Of the \$10 million disbursed to the CDC in FY 2017-18, \$800,000 was allocated for administrative costs and \$9.2 million was allocated for capital funding through the CDC's NOFA process for Strategy F7.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance
June 30, 2018

3. Community Development Commission (Continued)

For the year ended June 30, 2018, CDC's Measure H actual expenditures totaled \$41,279 in administrative costs only. The \$9.2 million for capital funding had not yet been expended, but the funds were committed to the following housing projects for Homeless Initiative Strategy F7:

| Housing Projects | Measure H Funds Committed |
|---------------------------|---------------------------|
| PATH Villas at South Gate | \$ 1,700,000 |
| Kensington Campus | 2,000,000 |
| Florence Apartments | 2,000,000 |
| The Spark at Midtown | 2,000,000 |
| Sun Commons | 1,500,000 |
| Total | <u>\$ 9,200,000</u> |

4. Department of Health Services

For the year ended June 30, 2018, the DHS Measure H expenditures for Homeless Initiative Strategy B7 – Interim/Bridge Housing for Those Exiting Institutions and Strategy E8 – Enhance the Emergency Shelter System totaled \$9,560,779 and \$4,862,132, respectively, as detailed below:

| Period | Strategy B7 | Strategy E8 |
|----------------|---------------------|---------------------|
| First Quarter | \$ 1,316,469 | \$ 1,911,351 |
| Second Quarter | 1,532,540 | 700,547 |
| Third Quarter | 2,688,541 | 660,600 |
| Fourth Quarter | 4,023,229 | 1,589,634 |
| Total | <u>\$ 9,560,779</u> | <u>\$ 4,862,132</u> |

DHS's third and fourth quarter Measure H expenditures claimed for Strategies B7 and E8 could be reduced pending final determination of client eligibility for Senate Bill 678 and Assembly Bill 109 funding.

Senate Bill 678 is State funding to support evidence-based practices for supervision of adult felony probationers. Funds are derived from State savings resulting from declining prison population due to County efforts to reduce recidivism of felony probationers under local supervision.

Assembly Bill 109 is permanent revenue stream through Vehicle License Fees and a portion of the State sales tax. Assembly Bill 109 establishes the California Public Safety Realignment Act of 2011 which allows for current non-violent, non-serious, and non-sex offenders, who after they are released from California State prison, are to be supervised at the local County level. Instead of reporting to state parole officers, these offenders are to report to local county probation officers.

Both Senate Bill 678 and Assembly Bill 109 funding sources are utilized based on clients meeting certain eligibility requirements.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Notes to the Schedule of Revenues and Expenditures and Changes in Fund Balance
June 30, 2018

5. Los Angeles Homeless Services Authority

For the year ended June 30, 2018, the County disbursed \$88,353,859 to LAHSA for Measure H expenditures to prevent and combat homelessness projects under various homeless initiative strategies as listed below. However, LAHSA's actual Measure H expenditures were \$85,386,372 for the year ended June 30, 2018. The \$2,967,487 difference is recorded as deferred revenue by LAHSA as of June 30, 2018.

| Strategy | | Measure H Disbursement by County | Actual Measure H Expenditures | Difference |
|----------|--|--|----------------------------------|---------------------|
| A1 | Homeless Prevention for Families | \$ 1,941,697 | \$ 2,093,024 | \$ (151,327) |
| A5 | Homeless Prevention for Individuals | 1,401,039 | 1,510,541 | (109,502) |
| B3 | Partner with Cities to expand rapid re- housing | 30,310,216 | 26,363,037 | 3,947,180 |
| B7 | Interim/ Bridge Housing for Those Exiting Institutions | 136,542 | 161,346 | (24,805) |
| E6 | Countywide Outreach System | 2,859,539 | 2,506,922 | 352,617 |
| E7 | Strengthen the Coordinated Entry System | 11,805,821 | 12,119,092 | (313,271) |
| E8 | Enhance the Emergency Shelter System | 37,660,574 | 37,699,148 | (38,574) |
| E14 | Enhanced Services for Transition Age Youth | 2,238,431 | 2,933,262 | (694,831) |
| Total | | <u>\$ 88,353,859</u> | <u>\$ 85,386,372</u> | <u>\$ 2,967,487</u> |

6. Subsequent Events

In preparing the Schedule of Measure H Revenues and Expenditures, the County has evaluated events and transactions for potential recognition or disclosure through December 31, 2018, the date the Schedule was issued. No subsequent events occurred that require recognition or additional disclosure in the Schedule.

REQUIRED SUPPLEMENTARY INFORMATION

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Schedule of Revenues and Expenditures and Changes in Fund Balance – Budget and Actual on a
Budgetary Basis
For the Fiscal Year Ended June 30, 2018

| | Budget | Actual | Variance |
|---|--------------------|--------------------|--------------------|
| Revenues | | | |
| Voter Approved Special Taxes | \$ 266,249,000 | \$ 259,966,348 | \$ (6,282,652) |
| Interest Earnings | - | 348,357 | 348,357 |
| Total Revenues | <u>266,249,000</u> | <u>260,314,705</u> | <u>(5,934,295)</u> |
| Expenditures | | | |
| A: Prevent Homelessness | | | |
| A1: Homeless Prevention Program for Families | | | |
| Los Angeles Homeless Services Authority | 3,000,000 | 1,941,697 | 1,058,303 |
| Total A1: Homeless Prevention Program for Families | <u>3,000,000</u> | <u>1,941,697</u> | <u>1,058,303</u> |
| A5: Homeless Prevention Program for Individuals | | | |
| Los Angeles Homeless Services Authority | 5,500,000 | 1,401,039 | 4,098,961 |
| Total A5: Homeless Prevention Program for Individuals | <u>5,500,000</u> | <u>1,401,039</u> | <u>4,098,961</u> |
| Total A: Prevent Homelessness | <u>8,500,000</u> | <u>3,342,736</u> | <u>5,157,264</u> |
| B: Subsidize Housing | | | |
| B1: Provide Subsidized Housing to Homeless Disabled Individuals Pursuing Supplemental Security Income (SSI) | | | |
| Department of Public Social Services | 5,138,000 | 2,588,974 | 2,549,026 |
| Total B1: Provide Subsidized Housing to Homeless Disabled Individuals Pursuing SSI | <u>5,138,000</u> | <u>2,588,974</u> | <u>2,549,026</u> |
| B3: Partner with Cities to Expand Rapid Re-Housing | | | |
| Department of Health Services | 15,004,000 | 10,418,408 | 4,585,592 |
| Los Angeles Homeless Services Authority | 41,996,000 | 30,310,216 | 11,685,784 |
| Total B3: Partner with Cities to Expand Rapid Re-Housing | <u>57,000,000</u> | <u>40,728,624</u> | <u>16,271,376</u> |
| B4: Facilitate Utilization of Federal Housing Subsidies | | | |
| Housing Authority County of Los Angeles | 6,280,000 | 2,540,941 | 3,739,059 |
| Total B4: Facilitate Utilization of Federal Housing Subsidies | <u>6,280,000</u> | <u>2,540,941</u> | <u>3,739,059</u> |
| B6: Family Reunification Housing Subsidy | | | |
| Department of Children and Family Services | 116,000 | 87,900 | 28,100 |
| Total B6: Family Reunification Housing Subsidy | <u>116,000</u> | <u>87,900</u> | <u>28,100</u> |
| B7: Interim/ Bridge Housing for Those Exiting Institutions | | | |
| Los Angeles Homeless Services Authority | 1,778,000 | 136,542 | 1,641,458 |
| Department of Health Services | 9,561,000 | 9,560,779 | 221 |
| Department of Mental Health | 65,000 | 30,671 | 34,329 |
| Department of Public Health | 1,596,000 | 1,593,201 | 2,799 |
| Total B7: Interim/ Bridge Housing for Those Exiting Institutions | <u>13,000,000</u> | <u>11,321,193</u> | <u>1,678,807</u> |
| Total B: Subsidize Housing | <u>81,534,000</u> | <u>57,267,632</u> | <u>24,266,368</u> |
| C: Increase Income | | | |
| C4: Establish a Countywide SSI Advocacy Program for People Experiencing Homelessness or at Risk of Homelessness | | | |
| Department of Health Services | 14,731,000 | 5,687,953 | 9,043,047 |
| Department of Mental Health | 949,000 | 530,225 | 418,775 |
| Total C4: Establish a Countywide SSI Advocacy Program | <u>15,680,000</u> | <u>6,218,178</u> | <u>9,461,822</u> |
| C7: Subsidized Employment for Homeless Adults | | | |
| Department of Workforce Development, Aging, and Community Services | 5,000,000 | 3,243,282 | 1,756,718 |
| Total C7: Subsidized Employment for Homeless Adults | <u>5,000,000</u> | <u>3,243,282</u> | <u>1,756,718</u> |
| Total C: Increase Income | <u>20,680,000</u> | <u>9,461,460</u> | <u>11,218,540</u> |

See accompanying notes to the required supplementary information.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Schedule of Revenues and Expenditures and Changes in Fund Balance – Budget and Actual on a
Budgetary Basis (Continued)
For the Fiscal Year Ended June 30, 2018

| | Budget | Actual | Variance |
|--|--------------------|----------------------|----------------------|
| D: Provide Case Management and Services | | | |
| D6: Criminal Record Clearing Project | | | |
| Department of Public Defender | 623,000 | 316,868 | 306,132 |
| Total D6: Criminal Record Clearing Project | 623,000 | 316,868 | 306,132 |
| D7: Provide Services and Rental Subsidies for Permanent Supportive Housing (PSH) | | | |
| Department of Health Services | 21,432,000 | 21,431,789 | 211 |
| Department of Mental Health | 3,149,000 | 494,683 | 2,654,317 |
| Department of Public Health | 563,000 | 56,024 | 506,976 |
| Total D7: Provide Services and Rental Subsidies for PSH | 25,144,000 | 21,982,496 | 3,161,504 |
| Total D: Provide Case Management and Services | 25,767,000 | 22,299,364 | 3,467,636 |
| E: Create a Coordinated System | | | |
| E6: Countywide Outreach System | | | |
| Department of Health Services | 11,993,000 | 4,360,881 | 7,632,119 |
| Los Angeles Homeless Services Authority | 6,395,000 | 2,859,539 | 3,535,461 |
| Department of Mental Health | 147,000 | 114,629 | 32,371 |
| Total E6: Countywide Outreach System | 18,535,000 | 7,335,049 | 11,199,951 |
| E7: Strengthen the Coordinated Entry System | | | |
| Los Angeles Homeless Services Authority | 26,000,000 | 11,805,821 | 14,194,179 |
| Total E7: Strengthen the Coordinated Entry System | 26,000,000 | 11,805,821 | 14,194,179 |
| E8: Enhance the Emergency Shelter System | | | |
| Department of Health Services | 4,953,000 | 4,862,132 | 90,868 |
| Los Angeles Homeless Services Authority | 50,981,000 | 37,660,574 | 13,320,426 |
| Department of Mental Health | 66,000 | 29,871 | 36,129 |
| Total E8: Enhance the Emergency Shelter System | 56,000,000 | 42,552,577 | 13,447,423 |
| E14: Enhanced Services for Transition Age Youth | | | |
| Los Angeles Homeless Services Authority | 5,000,000 | 2,238,431 | 2,761,569 |
| Total E14: Enhanced Services for Transition Age Youth | 5,000,000 | 2,238,431 | 2,761,569 |
| Total E: Create a Coordinated System | 105,535,000 | 63,931,878 | 41,603,122 |
| F: Increase Affordable/Homeless Housing | | | |
| F7: One-Time Housing Innovation Fund | | | |
| Chief Executive Office | 5,000,000 | 137,500 | 4,862,500 |
| Community Development Commission | 10,000,000 | 10,000,000 | - |
| Total F7: One-Time Housing Innovation Fund | 15,000,000 | 10,137,500 | 4,862,500 |
| Total F: Increase Affordable/Homeless Housing | | | |
| Administrative | | | |
| Homeless Initiative Administration | 1,500,000 | 841,726 | 658,274 |
| Total Administrative | 1,500,000 | 841,726 | 658,274 |
| Appropriations for Contingencies | 7,733,000 | - | 7,733,000 |
| Total Appropriations for Contingencies | 7,733,000 | - | 7,733,000 |
| Total Expenditures | 266,249,000 | 167,282,296 | 98,966,704 |
| Excess of Revenues Over Expenditures | - | 93,032,409 | 93,032,409 |
| Less: Contractual Obligations | | | |
| Commitments Outstanding as of Fiscal Year End | - | 2,008,503 | (2,008,503) |
| Total Net Change in Contractual Obligations | - | 2,008,503 | (2,008,503) |
| Net Change in Fund Balance | - | 91,023,906 | 91,023,906 |
| Fund Balance, July 1, 2017 | - | - | - |
| Fund Balance, June 30, 2018 | \$ - | \$ 91,023,906 | \$ 91,023,906 |

See accompanying notes to the required supplementary information.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Notes to the Required Supplementary Information
June 30, 2018

1. Budgets and Budgetary Information

In accordance with the provisions of Sections 29000-29144 of the Government Code of the State of California, commonly known as the County Budget Act, the County prepares and adopts an annual budget on or before October 2 for each fiscal year. Budgets are adopted on a basis of accounting that is different from accounting principles generally accepted in the United States of America. Budgets for the Homeless and Housing Measure H Special Revenue Fund are consistent with the annual expenditure plan approved by the Board of Supervisors. The County utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

2. Reconciliation of Fund Balance- Budgetary to US GAAP Basis

The Schedule of Revenues and Expenditures and Changes in Fund Balance of the Homeless and Housing Measure H Special Revenue Fund has been prepared on a modified accrual basis of accounting in accordance with US GAAP. The Budgetary Comparison Schedule have been prepared on a budgetary basis, which is different from US GAAP.

The following schedule is a reconciliation of the budgetary and US GAAP fund balances as of June 30, 2018:

| | |
|---------------------------------|-----------------------------|
| Fund Balance - budgetary basis | \$ 91,023,906 |
| Encumbrances and other reserves | <u>2,008,503</u> |
| Subtotal | 93,032,409 |
| Adjustments: | |
| Change in revenue accruals | <u>(977,000)</u> |
| Fund Balance - US GAAP basis | <u><u>\$ 92,055,409</u></u> |

**SUPPLEMENTAL INFORMATION
IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of the Schedule of Revenues and Expenditures and Changes in Fund Balance
of the Homeless and Housing Measure H Special Revenue Fund
Performed in Accordance with *Government Auditing Standards***

Mr. John Naimo
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Revenues and Expenditures and Changes in Fund Balance (the Schedule) for Homeless and Housing Measure H (Measure H) Special Revenue Fund of the County of Los Angeles (the County) for the fiscal year ended June 30, 2018, and the related notes to the Schedule, which collectively comprised the County's basic Schedule, and have issued our report thereon dated December 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's Schedule will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control described in the accompanying audit findings and recommendations that we consider to be a significant deficiency as item 2018-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the amounts on the Schedule. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying audit findings and recommendations as item 2018-02.

The County's Responses to Findings

The County's responses to the findings identified in our audit are described in the accompanying audit findings and recommendations. The County's responses were not subjected to the auditing procedures applied in the audit of the Schedule and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "BCA Watson Rice, LLP". The signature is written in a cursive, flowing style.

Torrance, California
December 31, 2018

**Independent Auditor's Report on Compliance with Requirements
Applicable to Revenues and Expenditures and Changes in Fund Balance of the
Homeless and Housing Measure H Special Revenue Fund in Accordance with the
Measure H, Ordinance 2017-001, Chapter 4.73 to the Los Angeles County Code –
Transaction and Use Tax to Prevent and Combat Homelessness**

Mr. John Naimo
Auditor-Controller
County of Los Angeles
Los Angeles, California

Report on Compliance

We have audited the County of Los Angeles (the County) compliance of the Homeless and Housing Measure H (Measure H) revenues and expenditures and changes in fund balance with the types of compliance requirements described in the *Measure H, Ordinance 2017-001, Chapter 4.73 to the Los Angeles County Code – Transaction and Use Tax to Prevent and Combat Homelessness*, for the fiscal year ended June 30, 2018.

Management's Responsibility

The County's management is responsible for compliance with the requirements of laws and regulations applicable to the Measure H revenues and expenditures.

Auditor's Responsibility

Our responsibility is to express an opinion on the County's compliance with Measure H revenues and expenditures based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on Measure H revenues and expenditures occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on the Measure H revenues and expenditures. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion on Measure H Revenues and Expenditures

In our opinion, except for effects of the \$115,452 of unsupported and unallowable Measure H expenditures as described in the audit findings and recommendations as item 2018-02, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Measure H revenues and expenditures for the fiscal year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on the Measure H revenues and expenditures as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the *Measure H, Ordinance 2017-001, Chapter 4.73 to the Los Angeles County Code – Transaction and Use Tax to Prevent and Combat Homelessness*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the Measure H revenues and expenditures that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. We identified certain deficiencies in internal control described in the accompanying audit findings and recommendations that we consider to be a significant deficiency as item 2018-01.

The County's Responses to Findings

The County's responses to the findings identified in our audit are described in the accompanying audit findings and recommendations. The County's responses were not subjected to the auditing procedures applied in the audit of the Schedule and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guidelines. Accordingly, this report is not suitable for any other purpose.



Torrance, California
December 31, 2018

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Audit Findings and Recommendations
For the Year Ended June 30, 2018

Finding No. 2018-01 – The County’s Chief Executive Officer (CEO) did not issue specific Measure H program fiscal oversight policies or procedures detailing the expenditure documentation and fiscal monitoring review requirements for subrecipient contracted providers of County Departments and Agencies receiving Measure H funds. As a result, only limited documentation was submitted in support of Measure H expenditure invoices by subrecipient contracted providers, resulting in \$115,452 of questioned costs based on our sample expenditure testing.

Criteria – Effective and adequate internal controls require that prior to payment of subrecipient contracted provider invoices, adequate assurance on the eligibility and accuracy of Measure H expenditures should be determined, including a review of sufficient detail to support the costs incurred.

Condition – The CEO did not issue specific Measure H program fiscal policies and procedures detailing the expenditure documentation and fiscal monitoring review requirements for subrecipient contracted providers. For FY 2017-18, Measure H expenditures by LAHSA, DHS, and WDACS represented eighty-eight percent (88%) of total Measure H expenditures by the County. A majority of the Measure H funds disbursed to LAHSA, DHS, and WDACS were expended by third party subrecipient contracted providers. We found that subrecipient contracted providers to LAHSA, DHS^a, and WDACS submitted limited detailed documentation in support of invoiced expenditures. Only summary accounting reports, such as general ledgers, profit and loss reports, and budget to actual reports were required to be submitted in support of expenditure invoices. Moreover, we found that limited or no fiscal monitoring reviews of Measure H subrecipient contracted providers were performed in FY 2017-18.

Cause – For FY 2017-18, the CEO determined that it was necessary to disburse Measure H funds to County Departments and Agencies to serve the homeless community without specific written policies and procedures for Measure H expenditure claims as to eliminate administrative barriers at the onset of Measure H implementation with the intention of developing specific fiscal policies and procedures in the future. Thus, the CEO deferred to each County Department and Agency to utilize its existing documentation requirements for subrecipient contracted providers.

Effect – The lack of obtaining adequate assurance on the eligibility and accuracy of Measure H expenditures, including a review of detailed supporting documentation and conducting fiscal monitoring reviews of subrecipient contracted providers resulted in unsupported/unallowable Measure H claimed costs totaling \$115,452 based on our sample testing.

Recommendation – Recognizing the importance of making timely payment of invoices to subrecipient contracted providers and the extensive time requirements of County Departments and Agencies to review voluminous amounts of detailed supporting documentation prior to payment of monthly invoices, the CEO should design a comprehensive Measure H fiscal oversight program that is consistently applied by all County Departments and Agencies that utilize subrecipient contracted providers. The Measure H fiscal oversight program should include at a minimum: 1) periodic fiscal monitoring reviews of subrecipient contracted provider cost accounting procedures, internal controls, and cost allocation plans, 2) testing and verification that sufficient and adequate supporting documentation of Measure H expenditures are being maintained by subrecipient contracted providers,

^a For DHS, limited documentation submitted by subrecipient contracted providers applies to cost-reimbursable contracts only.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Audit Findings and Recommendations
For the Year Ended June 30, 2018

and 3) development of a risk-based approach for effective fiscal oversight of subrecipient contracted providers. Fiscal monitoring reviews combined with a review of detailed supporting documentation should be performed timely throughout the fiscal year and not just at year-end.

County Management Response – See attachment for CEO management response.

County of Los Angeles
Homeless and Housing Measure H Special Revenue Fund
Audit Findings and Recommendations
For the Year Ended June 30, 2018

Finding No. 2018-02 – Unsupported and unallowable Measure H expenditures by subrecipient contracted providers to County Departments and Agencies.

Criteria – Effective and adequate internal controls require that prior to payment of subrecipient contracted provider invoices, adequate assurance on the eligibility and accuracy of Measure H expenditures should be determined, including a review of invoices with sufficient detail to support the costs incurred.

Condition – Based on our detailed testing of FY 2017-18 Measure H expenditures at eleven County Departments and Agencies totaling \$29,840,156, we found \$97,881 in unsupported expenditures and \$17,571 in unallowable expenditures by three County Departments and Agencies, as detailed in the table below:

| | Depts/Agencies | Unsupported Expenditures | Unallowable Expenditures | Total |
|----|----------------|--------------------------|--------------------------|------------|
| 1 | CEO | \$ - | \$ - | \$ - |
| 2 | DCFS | - | - | - |
| 3 | DHS | - | - | - |
| 4 | DMH | - | - | - |
| 5 | DPH | - | 17,353 | 17,353 |
| 6 | DPSS | - | - | - |
| 7 | PD | - | - | - |
| 8 | WDACS | - | - | - |
| 9 | CDC | - | - | - |
| 10 | HACoLA | - | 218 | 218 |
| 11 | LAHSA | 97,881 | - | 97,881 |
| | Total | \$ 97,881 | \$ 17,571 | \$ 115,452 |

Cause – For FY 2017-18, the CEO determined that it was necessary to disburse Measure H funds to County Departments and Agencies to serve the homeless community without specific written policies and procedures for Measure H expenditure claims as to eliminate administrative barriers at the onset of Measure H implementation with the intention of developing specific fiscal policies and procedures in the future. Thus, the CEO deferred to each County Department and Agency to utilize its existing documentation requirements for subrecipient contracted providers.

Effect – The lack of obtaining adequate assurance on the eligibility and accuracy of Measure H expenditures, including a review of detailed supporting documentation and conducting fiscal monitoring reviews of subrecipient contracted providers, resulted in unsupported/unallowable Measure H claimed costs totaling \$115,452 based on our sample testing.

Recommendation – The CEO should seek reimbursement of the \$115,452 of unsupported/unallowable Measure H claimed costs.

County Management Response – See attachment for CEO management response.



County of Los Angeles
CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

SACHI A. HAMAI
Chief Executive Officer

February 11, 2019

Board of Supervisors
HILDA L. SOLIS
First District

MARK RIDLEY-THOMAS
Second District

SHEILA KUEHL
Third District

JANICE HAHN
Fourth District

KATHRYN BARGER
Fifth District

To: John Naimo
Auditor-Controller

From: Sachi A. Hamai
Chief Executive Officer

MEASURE H FINANCIAL AND COMPLIANCE AUDIT FOR FY2017-18 – COUNTY RESPONSE

Thank you for the opportunity to review BCA Watson Rice, LLP's independent audit report of the schedule of revenues, expenditures and changes in fund balance for the Homeless and Housing Measure H Special Revenue Fund for the fiscal year ending June 30, 2018. My Office would like to provide a response to the two findings and associated recommendations from the audit report.

Finding No. 2018-01 – The County Executive Office (CEO) did not issue specific Measure H program fiscal oversight policies or procedures detailing the expenditure documentation and fiscal monitoring review requirements for subrecipient contracted providers of County Departments and Agencies receiving Measure H funds. As a result, only limited documentation was submitted in support of Measure H expenditure invoices by subrecipient contracted providers, resulting in \$115,452 of questioned costs based on our sample expenditure testing.

Recommendation – Recognizing the importance of making timely payment of invoices to subrecipient contracted providers and the extensive time requirements of County Departments and Agencies to review voluminous amounts of detailed supporting documentation prior to payment of monthly invoices, the CEO should design a comprehensive Measure H fiscal oversight program that is consistently applied by all County Departments and Agencies that utilize subrecipient contracted providers. The Measure H fiscal oversight program should include at a minimum: 1) periodic fiscal monitoring reviews of subrecipient contracted provider cost accounting procedures, internal controls, and cost allocation plans; 2) testing and verification that sufficient and adequate supporting documentation of Measure H expenditures are being maintained by subrecipient contracted providers; and 3) development of a risk-based approach for effective fiscal oversight of subrecipient contracted providers. Fiscal monitoring reviews, combined with a review of detailed supporting documentation, should be performed timely throughout the fiscal year and not just at year-end.

Response to Finding:

The CEO agrees with the finding; however, we need to emphasize that County Departments and Agencies administering contracts funded by Measure H already had existing policies and procedures for expenditure documentation and fiscal monitoring reviews in place for subrecipient providers. Additionally:

"To Enrich Lives Through Effective And Caring Service"

- All County Departments and Agencies were able to provide more detailed supporting expenditure documentation from homeless service providers upon request. It must be noted that during the audit, there was a delay in receiving the requested documentation from service providers because their web-based systems could not handle the large electronic documentation file requests.
- All County Departments and Agencies in question had fiscal monitoring reviews either completed or planned to be completed in arrears following the end of the Fiscal Year (FY). The CEO has confirmed the below in response to this finding:
 - The Department of Health Services (DHS) monitored all its contract agreements during FY 2017-18. There was 100 percent fiscal monitoring for every fee-for service invoice before they were approved for payment during the entire fiscal year. Fiscal monitoring for cost-based reimbursement contracts was completed during the scheduled annual contract monitoring visit for FY 2017-18, but the depth of the fiscal monitoring varied based on risk.
 - Effective FY 2018-19, the Los Angeles Homeless Services Authority (LAHSA) has revised its contract monitoring procedures from monitoring in arrears (following the end of each fiscal year) to monitoring during each fiscal year.

Response to Recommendation:

Prior to the beginning of FY 2019-20, and in collaboration with the Auditor-Controller, the CEO will implement the auditor's recommendation to design a comprehensive Measure H fiscal oversight program applicable to County Departments and Agencies that utilize subrecipient contracted providers for Measure H-funded services.

Finding No. 2018-02 – Unsupported and unallowable Measure H expenditures by subrecipient contracted providers to County Departments and Agencies.

Recommendation – The CEO should seek reimbursement of the \$115,452 of unsupported/unallowable Measure H claimed costs.

Response to Finding:

The CEO agrees with this finding but would like to note the following reconciliations were completed after the conclusion of the audit:

Unsupported Expenditure – Los Angeles Homeless Services Authority (LAHSA) - \$97,881: Subsequent to the completion of the audit, LAHSA secured documentation from the provider who incurred these expenditures - \$48,000 from Sample 32 and \$49,000 from Sample 88. LAHSA's Sample 88 reconciliation identified an overbilling of \$29,580 which the provider confirmed was an overbilling of Measure H funds due to an accounting error. The provider has since reconciled the amount in question with LAHSA and the CEO by offsetting the amount in its most current Measure H claim. Therefore, there is no need for the CEO to seek reimbursement of these expenditures.

Unallowable Expenditure – Department of Public Health (DPH) - \$17,571: DPH confirmed that there was an overbilling of Measure H funds due to an error in the Electronic Medical Records System. DPH has since reconciled the amount in question with the CEO by offsetting the amount in its most current Measure H claim.

Unallowable Expenditure – Housing Authority of the County of Los Angeles (HACoLA) - \$218: HACoLA has identified the overpayment to a landlord as the cause for this unallowable expenditure and will offset its next Measure H claim with the amount in question.

Response to Recommendation:

The CEO will not seek reimbursement for the LAHSA expenditures that were found to be supported. The CEO has already sought reimbursement for the unallowable expenditures from DPH and HACoLA.

Conclusion

The CEO thanks BCA Watson Rice, LLP for the extensive work performed on this year's independent audit of the Measure H Special Fund. The County of Los Angeles is committed to the most efficient administration of Measure H funds to accomplish the mission of combatting and preventing homelessness in Los Angeles County.

Thank you.

SAH:JJ:PA
JR:TTD:ib

c: Children and Family Services
Community Development Commission
Health Agency
Health Services
Mental Health
Public Defender
Public Health
Public Social Services
Workforce Development, Aging and Community Services
Los Angeles Homeless Services Authority

Attachment II

County of Los Angeles

Independent Accountant's Report On Applying Agreed-Upon Procedures

MEASURE H

**(Ordinance 2017-001, Chapter 4.73 to the Los Angeles County Code –
Transaction and Use Tax to Prevent and Combat Homelessness)**

For the Fiscal Year Ended June 30, 2018



2355 Crenshaw Blvd. Suite 150 Torrance, CA 90501
t: (310) 792-4640 f: (310) 792-4140

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mr. John Naimo
Auditor-Controller
County of Los Angeles
Los Angeles, California

We have performed the procedures enumerated below, which were agreed to by the County of Los Angeles (the County), solely to assist the County in determining whether the eleven County Departments and outside agencies that received Homeless and Housing Measure H (Measure H) Special Revenue Funds were in compliance with the Measure H, Ordinance 2017-001, Chapter 4.73 to the Los Angeles County Code – Transaction and Use Tax to Prevent and Combat Homelessness terms and conditions for the year ended June 30, 2018. The eleven County Departments and outside agencies are as follows: the Chief Executive Office (CEO), the Department of Children and Family Services (DCFS), the Department of Health Services (DHS), the Department of Mental Health (DMH), the Department of Public Health (DPH), the Department of Public Social Services (DPSS), Public Defender (PD), Workforce Development, Aging and Community Services (WDACS), the Community Development Commission (CDC), the Housing Authority of the County of Los Angeles (HACoLA), and the Los Angeles Homeless Services Authority (LAHSA). The management of the eleven County Departments and outside agencies are responsible for the compliance with the Measure H Ordinance requirements. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures are as follows:

1. We performed the agreed-upon test procedures utilizing the American Institute of Certified Public Accountants (AICPA) Sampling Guidelines.

Results

CEO

CEO's Measure H expenditures for the year ended June 30, 2018 consists of payroll costs (86.0%) and non-payroll expenditures (14.0%). Based on the AICPA Sampling Guidelines, we selected a sample size of two months for payroll costs: January 2018 and May 2018 and performed detailed testing of all employees charged to the program. In addition, we selected three transactions for non-payroll/program costs, which represented 100% of total non-payroll expenditures.

DCFS

DCFS' Measure H expenditures for the year ended June 30, 2018 consists only of payroll costs (100%). Based on the AICPA Sampling Guidelines, we selected a sample size of three months: March 2018, May 2018, and June 2018 and performed detailed testing of all employees charged to the program.

DHS

DHS' Measure H expenditures for the year ended June 30, 2018 consists of payroll costs (2.95%) and non-payroll expenditures (97.05%). Based on the AICPA Sampling Guidelines, we selected a sample size of three months for payroll costs: April 2018, May 2018, and June 2018 and performed detailed testing of thirty-two randomly selected employees charged to the program. In addition, we selected 59 transactions for non-payroll reimbursement contract expenditures and 61 fee-for-service invoice contract expenditures representing 13.95% and 27.50% of the non-payroll expenditures, respectively. In addition, of the 61 fee-for service invoices, we selected 120 clients/recipients to verify if the amount paid for services rendered was in accordance with the approved rate in the contract.

DMH

DMH's Measure H expenditures for the year ended June 30, 2018 consists primarily of payroll costs (99.3%). Based on the AICPA Sampling Guidelines, we selected a sample size of three months: April 2018, May 2018, and June 2018 and performed detailed testing of all employees charged to the program.

DPH

DPH's Measure H expenditures for the year ended June 30, 2018 consists of payroll costs (5.9%) and non-payroll expenditures (94.1%). Based on the AICPA Sampling Guidelines, we selected a sample size of two months for payroll costs: April 2018 and June 2018 and performed detailed testing of all employees charged to the program. In addition, we selected ten transactions for non-payroll contractor costs, which represented 33.9% of total non-payroll contractor expenditures and 40 non-payroll recipient costs, randomly selected from the month of December 2017, and January, February, March, April, May and June of 2018, which represented 5.0% of total non-payroll recipient expenditures. The non-payroll recipient costs consists of monthly recurring payments for health services for various clients.

DPSS

DPSS' Measure H expenditures for the year ended June 30, 2018 consists of payroll costs (24.9%) and non-payroll expenditures (75.1%). Based on the AICPA Sampling Guidelines, we selected a sample size of two months for payroll costs: May 2018 and June 2018 and performed detailed testing of all employees charged to the program. In addition, we selected 40 transactions for non-payroll costs, which represented 0.89% of total non-payroll expenditures. The non-payroll costs consists of recurring rental subsidy payments to various recipients/clients.

PD

PD's Measure H expenditures for the year ended June 30, 2018 consists only of payroll costs (100%). Based on the AICPA Sampling Guidelines, we selected a sample size of three months: April 2018, May 2018, and June 2018 and performed detailed testing of all employees charged to the program.

WDACS

WDAC's Measure H expenditures for the year ended June 30, 2018 consists of payroll costs (15.4%) and non-payroll expenditures (84.6%). Based on the AICPA Sampling Guidelines, we selected a sample size of two months for payroll costs: April 2018 and June 2018 and performed detailed testing of all employees charged to the program. In addition, we selected six transactions for non-payroll costs, which represented 45.57% of total non-payroll expenditures.

CDC

CDC's Measure H expenditures for the year ended June 30, 2018 consists of payroll costs (18.4%) and non-payroll expenditures (81.6%). Based on the AICPA Sampling Guidelines, we selected a sample size of two months for payroll costs: January 2018 and May 2018 and performed detailed testing of all

employees charged to the program. In addition, we selected 25 transactions for non-payroll costs, which represented 74.8% of total non-payroll expenditures.

HACoLA

HACoLA's Measure H expenditures for the year ended June 30, 2018 consists of payroll costs (10.3%) and non-payroll expenditures (89.7%). Based on the AICPA Sampling Guidelines, we selected a sample size of two months for payroll costs: January 2018 and May 2018 and performed detailed testing of all employees charged to the program. In addition, we selected 124 transactions for non-payroll costs, which represented 14.6% of total non-payroll expenditures. The non-payroll costs consists of monetary incentives to encourage property owners to rent their available units to the HACoLA Homeless and formerly Homeless Section 8 voucher holders under the Homeless Incentive Program.

LAHSA

LAHSA's Measure H expenditures for the year ended June 30, 2018 consists of payroll costs (7.7%) and non-payroll expenditures (92.3%). Based on the AICPA Sampling Guidelines, we selected a sample size of three months for payroll costs: April 2018, May 2018, and June 2018 and performed detailed testing of 42 randomly selected employees charged to the program. In addition, we selected 105 transactions for non-payroll expenditures, which represented 22.8% of total non-payroll expenditures.

2. We verified that the Department/Agency or their contractors and subcontractors providing Measure H services maintained:
 - a. Documentation to support the amount billed for providing Measure H program services under their contract.

Results

CEO

For the two months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

For the three non-payroll transactions selected, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system without exceptions.

DCFS

For the three months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

DHS

For the three months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also

confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

For the 59 non-payroll transactions for reimbursement contracts and 61 non-payroll transactions for fee-for-service contracts selected for detailed testing, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system without exceptions.

DMH

For the three months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

DPH

For the two months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

For the ten non-payroll contractor transactions selected, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system. We noted two exceptions. Based on our testing, we found that DPH overbilled the County \$6,032 related to Subrecipient/Contractor costs for Strategy B7.

For the 40 non-payroll recipient costs transactions selected, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system. We noted thirteen exceptions. Based on our testing, we found that DPH double counted and overbilled the County CEO \$11,321 related to recipient costs for Strategy B7.

DPSS

For the two months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

For the 40 non-payroll transactions selected, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system without exceptions.

PD

For the three months selected, we traced payroll costs to labor distribution reports, we agreed payroll costs on the labor distribution report to the pay stubs, and agreed salaries on the labor distribution report to salaries in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

WDACS

For the two months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

For the six non-payroll transactions selected, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system without exceptions.

CDC

For the two months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

For the 25 non-payroll/program transactions selected, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system without exceptions.

HACoLA

For the two months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

For the 124 non-payroll transactions selected, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system. We noted one exception. HACoLA erroneously overpaid one landlord \$218 for Homeless Incentive Program under Strategy B4.

LAHSA

For the three months selected, we traced payroll costs to labor distribution reports, we agreed hours charged on the labor distribution report to the timesheets, and agreed pay rates charged on the labor distribution report to pay rates in the employee personnel files without exceptions. We also confirmed that timesheets were signed by the employee and approved by the supervisor without exceptions.

For the 105 non-payroll transactions selected for detailed testing, we agreed the expenditure to backup supporting documentation, confirmed that the expenditures were properly approved, and properly recorded in the accounting system. We noted two exceptions. LAHSA was unable to provide detailed supporting documentation to support two non-payroll transactions totaling \$97,881 (\$48,828 for Strategy B3 and \$49,053 for Strategy E8) of Measure H expenditures.

- b. Records to verify that funds were used for allowable expenditures in compliance with the requirements of Measure H.

Results

CEO

For the two months selected, we confirmed that the payroll costs were specific to the cost of Administration of the Measure H program.

For the three transactions of non-payroll expenditures selected, we confirmed that the non-payroll expenditures were specific to Strategy F7 – Preserve and Promote the Development of Affordable Housing for Homeless Families and Individuals – One-time Housing Innovation Fund of the Measure H Program.

DCFS

For the three months selected, we confirmed that the payroll costs were specific to the Strategy B6 – Family Reunification Housing Subsidies of the Measure H Program.

DHS

For the three months of payroll costs selected and 59 transactions of non-payroll expenditures for reimbursement contracts and 61 of non-payroll expenditures for fee-for-service contracts, we confirmed that the payroll costs and non-payroll expenditures were specific to the following Measure H strategies.

- Strategy B3 – Partners with Cities to Expand Rapid Re-Housing
- Strategy B7 – Interim/Bridge Housing for those Exiting Institutions
- Strategy C4/C5/C6 – Establish a Countywide SSI Advocacy Program for People Experiencing Homelessness or at Risk of Homelessness
- Strategy D7 – Provides Services and Rental Subsidies for Permanent Supportive Housing
- Strategy E6 – Countywide Outreach System
- Strategy E8 – Enhance the Emergency Shelter

DMH

For the three months selected, we confirmed that the payroll costs were specific to the following Measure H strategies.

- Strategy B7 – Interim/Bridge Housing for those Exiting Institutions
- Strategy C4/C5/C6 – Establish a Countywide SSI Advocacy Program for People Experiencing Homelessness or at risk of Homelessness
- Strategy D7 – Provide Services and Rental Subsidies for Permanent Supportive Housing
- Strategy E6 – Countywide Outreach System
- Strategy E8 – Enhance the Emergency Shelter System

DPH

For the two months of payroll costs, ten non-payroll contractor costs, and 40 non-payroll recipient costs transaction selected, we confirmed that the payroll and non-payroll expenditures were specific to Strategy B7 – Interim/Bridge Housing for those Exiting Institutions and Strategy D7 – Provide Services and Rental Subsidies for Permanent Supportive Housing of the Measure H program except for \$17,353 in overbilling of Measure H expenditures for Strategy B7.

DPSS

For the two months of payroll costs and 40 transaction of non-payroll expenditures selected, we confirmed that the payroll and non-payroll expenditures were specific to the Strategy B1 – Provide Subsidized Housing to Homeless Disabled Individuals Pursing SSI of the Measure H Program.

PD

For the three months of payroll costs selected, we confirmed that the payroll expenditures were specific to the Strategy D6 – Criminal Record Clearing Project of the Measure H Program.

WDACS

For the two months of payroll costs and six transaction of non-payroll expenditures selected, we confirmed that the payroll and non-payroll expenditures were specific to the Strategy C7 – Subsidize Employment for Homeless Adults of the Measure H Program.

CDC

For the two months of payroll costs and 25 transaction of non-payroll expenditures selected, we confirmed that the payroll and non-payroll expenditures were specific to Strategy F7 – Preserve Current Affordable Housing and Promote the Development of Affordable Housing for Homeless Families and Individuals of the Measure H Program.

HACoLA

For the two months of payroll costs and 124 non-payroll recipient costs transaction selected, we confirmed that the payroll and non-payroll expenditures were specific to Strategy B4 – Facilitate Utilization of Federal Housing of the Measure H program except for \$218 in overbilling of Measure H expenditures to the County.

LAHSA

For the three months of payroll costs selected and 105 transactions of non-payroll expenditures, we confirmed that the payroll costs and non-payroll expenditures were specific to the following Measure H strategies with the exception of two non-payroll expenditures that lacked adequate detailed supporting documentation. The amount of unsupported non-payroll expenditures totaled \$97,881 (\$48,828 for Strategy B3 and \$49,053 for Strategy E8).

- Strategy A1 – Homeless Prevention Programs for Families
- Strategy A5 – Homeless Prevention Programs for Individuals
- Strategy B3 – Partners with Cities to Expand Rapid Re-Housing
- Strategy B7 – Interim/Bridge Housing for those Exiting Institutions
- Strategy E6 – Countywide Outreach System
- Strategy E7 – Strengthen the Coordinated Entry System
- Strategy E8 – Enhance the Emergency Shelter System
- Strategy E14 – Enhanced Services for Transition Age Youth

- c. Internal controls over financial reporting and compliance with provisions of laws, regulations, contracts or grant agreements.

Results

CEO

For the two months of payroll costs and three transactions of non-payroll expenditures selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

DCFS

For the three months selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

DHS

For the three months of payroll costs selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

For the 59 non-payroll expenditures selected for reimbursement contracts and 61 non-payroll expenditures selected for fee-for-service contracts, the supporting documents provided by DHS consisted of summary accounting reports with no detailed documentation to support the Subrecipient/Contractor invoices. DHS reached out to the Subrecipients/Contractors and was able to obtain detailed documentation to support the invoices, and based on our review of the supporting documentation, the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

DMH

For the three months selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

DPH

For the two months of payroll costs, ten non-payroll contractor costs, and 40 non-payroll recipient costs transaction selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18 except for \$17,353 in overbilling of Measure H expenditures for Strategy B7.

DPSS

For the two months of payroll costs and 40 transaction of non-payroll expenditures selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

PD

For the three months of payroll costs selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

WDACS

For the two months of payroll costs selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

For the six non-payroll expenditures transactions selected, the supporting documents provided by WDACS consisted of summary accounting reports with no detailed documentation to support Subrecipient/Contractor invoices. WDACS reached out to the Subrecipients/Contractors and was able to obtain detailed documentation to support the invoices, and based on our review of the supporting documentation, the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

CDC

For the two months of payroll costs and 25 transactions of non-payroll expenditures selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18.

HACoLA

For the two months of payroll costs, and 124 non-payroll recipient transactions selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18, except for \$218 in overbilling of Measure H expenditures for Strategy B4.

LAHSA

For the three months of payroll costs selected, the supporting documents shows evidence of being reviewed and properly authorized, and the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-2018.

For the 105 non-payroll expenditures selected the supporting documents provided by LAHSA consisted of summary accounting reports with no detailed documentation to support the Subrecipient/Contractor invoices. LAHSA reached out to the Subrecipients/Contractors and was able to obtain detailed documentation to support the invoices, and based on our review of the supporting documentation, the expenditures tested complied with the Measure H Expenditure Plan approved by the Board of Supervisors for FY 2017-18 except for \$97,881 (\$48,828 for Strategy B3 and \$49,053 for Strategy E8) in unsupported Measure H expenditures.

- d. Minimum encryption standards required by the County of Los Angeles Board of Supervisors' Policy 5.200, Contractor Protection of Electronic County Information (July 2016).

Results

We found that all eleven County Departments and outside Agencies complied with minimum encryption standards required by the County of Los Angeles Board of Supervisors' Policy 5.200, Contractor Protection of Electronic County Information (July 2016).

3. We verified that the Measure H funds are being used for the specific strategies approved by the Board.

Results

CEO

CEO was allocated \$1,500,000 of Measure H funds to be used for Administration of the Measure H program and \$5,000,000 of Measure H funds to be used for Strategy F7 – Preserve and Promote the Development of Affordable Housing for Homeless Families and Individuals – One-time Housing Innovation Fund of the Measure H Program based on the Measure H Expenditure Plan approved by the Board of Supervisors in FY 2017-18.

CEO contracted with a Contractor to launch a competition that attracts innovative proposals to expedite the development process and lower the cost of constructing homeless/affordable housing. The Contractor is responsible for the design, implementation and management of the grant competition program. The solicitation is expected to yield four to five projects that will be funded through Strategy F7 to produce prototypes that can potentially be brought to scale with future funding.

CEO's Measure H expenditures in FY 2017-18 totaled \$841,726 and \$137,500 and were specific for Administration of Measure H program and Strategy F7 – Preserve and Promote the Development of Affordable Housing for Homeless Families and Individuals – One-time Housing Innovation Fund, respectively.

DCFS

DCFS was allocated \$116,000 of Measure H funds to be used for Strategy B6 – Family Reunification Housing Subsidies based on the Measure H Expenditure Plan approved by the Board of Supervisors in FY 2017-18.

DCFS implemented the county-wide Family Reunification Housing Subsidy (FRHS) program to provide rapid rehousing and case management services to families in the child welfare system where the parent(s)' homelessness is the sole barrier for the return of the children. For FY 2017-18, DCFS had three Homeless Services Section staff to work on Strategy B6 - Family Reunification Housing Subsidies. DCFS' Program Staff act as liaison for Housing Agency staff, Dependency Court and Case Carrying Certified Social Workers to provide assistance, trouble shooting, and guidance with the FRHS referral process and services; tracks all data and provides monthly updates on status of each family; facilitates monthly meetings with housing agencies, Community Development Commission, and Dependency Court; tracks deliverables and program outcomes.

DCFS' Measure H expenditures in FY 2017-18 totaled \$87,900 and were specific for Strategy B6 – Family Reunification Housing Subsidies.

DHS

DHS was allocated \$77,674,000 of Measure H funds to be used for the following six strategies:

| Strategy | | Measure H Allocation |
|----------|--|----------------------|
| B3 | Partner with Cities to Expand Rapid Re-Housing | \$ 15,004,000 |
| B7 | Interim/Bridge Housing for those Exiting Institutions | 9,561,000 |
| C4/C5/C6 | Establishing a Countywide SSI Advocacy Program for People Experiencing Homelessness or At-Risk of Homelessness | 14,731,000 |
| D7 | Provide Services and Rental Subsidies for Permanent Supportive Housing | 21,432,000 |
| E6 | Countywide Outreach System | 11,993,000 |
| E8 | Enhance the Emergency Shelter System | 4,953,000 |
| Total | | <u>\$ 77,674,000</u> |

Under Strategy B3, DHS provided a time-limited intervention including financial assistance/subsidies and supportive services so that participants will be able to successfully maintain housing without long-term assistance.

Under Strategy B7, DHS will serve clients with complex health and/or behavioral health conditions who need a higher level of support services than is available in most shelter settings. Interim housing includes stabilization housing and recuperative care. Some interim housing programs provide enhanced onsite mental health services.

Under Strategy C4/C5/C6, DHS will expand and integrate physical and mental health clinical services to support Countywide Benefits Entitlements Services Team, including technical assistance, training, case consultation, record retrieval services, care coordination and comprehensive evaluations.

Under Strategy E6, it is aimed at improving outreach efforts to homeless individuals and families on the streets and in encampments in Los Angeles County. DHS developed a dispatch and tracking technology infrastructure for outreach requests, expanded Service Planning Area (SPA)-level and macro coordination of outreach teams through Coordinated Entry System Outreach Coordinators, launch and implemented Multidisciplinary Outreach teams to better assist unsheltered homeless individuals through expanded multidisciplinary outreach capacity, and support and expand general outreach staffing in all SPAs to further support outreach bandwidth.

Under Strategy E8, DHS provided interim housing to serve clients with complex health and/or behavioral health conditions who need a higher level of support services than is available in most shelter settings.

DHS' Measure H expenditures in FY 2017-18 totaled \$56,321,942 and were specific for the strategies listed below.

| Strategy | | Measure H Expenditures |
|----------|---|------------------------|
| B3 | Partner with Cities to Expand Rapid Re-Housing | \$ 10,418,408 |
| B7 | Interim/Bridge Housing for those Exiting Institutions | 9,560,779 |
| C4/C5/C6 | Establish a Countywide SSI Advocacy Program for People Experiencing Homelessness or At-Risk of Homelessness | 5,687,953 |
| D7 | Provide Services and Rental Subsidies for Permanent Supportive Housing | 21,431,789 |
| E6 | Countywide Outreach System | 4,360,881 |
| E8 | Enhance the Emergency Shelter System | 4,862,132 |
| Total | | <u>\$ 56,321,942</u> |

DMH

DMH was allocated \$4,376,000 of Measure H funds to be used for the following five strategies:

| Strategy | | Measure H Allocation |
|-----------------|--|---------------------------------|
| B7 | Interim/Bridge Housing for those Exiting Institutions | \$ 65,000 |
| C4/C5/C6 | Establish a Countywide SSI Advocacy Program for People Experiencing Homelessness or At-Risk of Homelessness | 949,000 |
| D7 | Provide Services and Rental Subsidies for Permanent Supportive Housing | 3,149,000 |
| E6 | Countywide Outreach System | 147,000 |
| E8 | Enhance the Emergency Shelter System | 66,000 |
| Total | | <u>\$ 4,376,000</u> |

Under Strategy B7, DMH will serve clients with complex health and/or behavioral health conditions who need a higher level of support services than is available in most shelter settings. Interim housing includes stabilization housing and recuperative care. Some interim housing programs provide enhanced onsite mental health services.

Under Strategy C4/C5/C6, DMH will expand and integrate physical and mental health clinical services to support Countywide Benefits Entitlements Services Team, including technical assistance, training, case consultation, record retrieval services, care coordination and comprehensive evaluations.

Under Strategy D7, DMH provides a local rent subsidy to ensure that housing units are affordable to people who are homeless. All strategy D7 clients receive Intensive Case Management Services and is matched to a rental subsidy. Based on client need, clients receive specialty mental health services through the Housing Full Service Partnership Program, in addition to substance use disorder outreach and assessment and service navigation.

Under Strategy E6, DMH is part of the Multidisciplinary Outreach Team to better assist unsheltered homeless individuals through expanded multidisciplinary outreach capacity.

Under Strategy E8, DMH provided interim housing to serve clients with complex health and/or behavioral health conditions who need a higher level of support services than is available in most shelter settings.

DMH's Measure H expenditures in FY 2017-18 totaled \$1,200,079 and were specific for the strategies as follows:

| Strategy | | Measure H Expenditures |
|-----------------|--|-----------------------------------|
| B7 | Interim/Bridge Housing for those Exiting Institutions | \$ 30,671 |
| C4/C5/C6 | Establish a Countywide SSI Advocacy Program for People Experiencing Homelessness or At-Risk of Homelessness | 530,225 |
| D7 | Provide Services and Rental Subsidies for Permanent Supportive Housing | 494,683 |
| E6 | Countywide Outreach System | 114,629 |
| E8 | Enhance the Emergency Shelter System | 29,871 |
| Total | | <u>\$ 1,200,079</u> |

DPH

DPH was allocated \$1,596,000 of Measure H funds to be used for Strategy B7 – Interim/Bridge Housing for those Existing Institutions of the Measure H Program and \$563,000 of Measure H funds to be used for Strategy D7 – Provide Services and Rental Subsidies for Permanent Supportive Housing of the Measure H Program based on the Measure H Expenditure Plan approved by the Board of Supervisors in FY 2017-18.

Under Strategy B7, DPH Substance Abuse Prevention and Control (SAPC) Recovery Bridge Housing (RBH) serves individuals who are homeless at treatment discharge and who choose abstinence-based housing for up to 90 days. Under Strategy D7, DPS supports the increase in access to supportive housing by funding high quality tenant services and, when necessary, a local rent subsidy to ensure that housing units are affordable to people who are homeless.

DPH's Measure H expenditures in FY 2017-18 totaled \$1,593,201 and \$56,024 and were specific for Strategy B7 – Interim/Bridge Housing for those Existing Institutions and Strategy D7 – Provide Services and Rental Subsidies for Permanent Supportive Housing of the Measure H Program, respectively, with the exception of \$17,353 in over-reported Measure H expenditures for Strategy B7.

DPSS

DPSS was allocated \$5,138,000 of Measure H funds to be used for Strategy B1 – Provide Subsidized Housing to Homeless Disabled Individuals Pursuing SSI based on the Measure H Expenditure Plan approved by the Board of Supervisors in FY 2017-18.

Under Strategy B1, DPSS provides subsidized housing for the homeless and those at risk of homelessness. To be eligible, participants must meet the General Relief “GR” requirements and receive GR funds. Participation in the program is voluntary and the participant is responsible for finding their own housing where the landlord has to agree to the program as well. Once the participant finds housing and has all the required paperwork, the agency verifies that it is a dwelling unit. The agency pays \$475/month (\$950/month for couple cases) directly to the landlord from Measure H funds and \$100 is deducted from the participant's GR check and also goes towards the rent and is paid directly to the landlord. The maximum amount of rent covered by the agency is \$575/month. Any changes to the participant's housing status is reported to the GR case worker.

DCFS' Measure H expenditures in FY 2017-18 totaled \$2,588,974 and were specific for Strategy B1 – Provide Subsidized Housing to Homeless Disabled Individuals Pursuing SSI.

PD

PD was allocated \$623,000 of Measure H funds to be used for Strategy D6 – Criminal Record Clearing Project based on the Measure H Expenditure Plan approved by the Board of Supervisors in FY 2017-18.

Under Strategy D6, PD provided field-based service to homeless and formerly homeless adults who have criminal records by connecting them with legal services to assist with record clearing and other legal barriers to achieving stable housing and employment.

PD's Measure H expenditures in FY 2017-18 totaled \$316,868 and were specific for Strategy D6 – Criminal Record Clearing Project.

WDACS

WDACS was allocated \$5,000,000 of Measure H funds to be used for Strategy C7 – Subsidized Employment for Homeless Adults based on the Measure H Expenditure Plan approved by the Board of Supervisors in FY 2017-18.

Under Strategy C7, WDACS provided Transitional Employment Services to Los Angeles County residents who experience multiple barriers to employment, including those who are homeless, former offenders and/or disconnected youth (Job Seekers and Participants). Funding for this strategy expands existing workforce development models, such as the Los Angeles Regional Initiative Enterprise, throughout the County to provide transitional subsidized employment services to homeless individuals.

WDACS's Measure H expenditures in FY 2017-18 totaled \$3,243,282 and were specific for Strategy C7 – Subsidized Employment for Homeless Adults.

CDC

CDC was allocated \$10,000,000 of Measure H funds to be used for Strategy F7 – Preserve Current Affordable Housing and Promote the Development of Affordable Housing for Homeless Families and Individuals of Measure H Program based on the Measure H Expenditure Plan approved by the Board of Supervisors in FY 2017-18.

Under Strategy F7, CDC is to finance the development and preservation of homeless housing through Commission's Notice of Funding Availability (NOFA) Process. The funds will be used to support the development and preservation of homeless housing in areas of the County where there is an urgent need for housing. As of June 30, 2018, the housing projects were still ongoing and were expected to close construction financing by March 2019.

The County disbursed \$10 million to CDC, and of the \$10 million disbursed to the CDC, \$800,000 was allocated for administrative costs and \$9.2 million was allocated for capital funding through the CDC's NOFA process for Strategy F7 – Preserve Current Affordable Housing and Promote the Development of Affordable Housing for Homeless Families and Individuals of the Measure H Program. CDC's Measure H expenditures in FY 2017-18 totaled \$41,279 in administrative costs only. The \$9.2 million for capital funding had not yet been expended, but the funds were committed to housing projects for homeless families and individuals under Strategy F7. The \$41,279 of actual Measure H expenditures were specific for Strategy F7.

HACoLA

HACoLA was allocated \$6,280,000 of Measure H funds to be used for Strategy B4 – Facilitate Utilization of Federal Housing Subsidies of the Measure H Program based on the Measure H Expenditure Plan approved by the Board of Supervisors in FY 2017-18.

Under Strategy B4, HACoLA provided housing opportunities to homeless veterans by giving rental incentives to landlords who provide rental units to serve homeless veterans and to implement measures aimed at increasing the number of available units for homeless veterans.

HACoLA's Measure H expenditures in FY 2017-18 totaled \$2,540,941 and were specific for Strategy B4 – Facilitate Utilization of Federal Housing Subsidies of the Measure H Program with the exception of \$218 over-reported Measure H expenditures.

LAHSA

LAHSA was allocated \$140,650,000 of Measure H funds to be used for the following eight strategies:

| Strategy | | Measure H Allocation |
|----------|---|-----------------------|
| A1 | Homeless Prevention Programs for Families | \$ 3,000,000 |
| A5 | Homeless Prevention Programs for Individuals | 5,500,000 |
| B3 | Partner with Cities to Expand Rapid Re-Housing | 41,996,000 |
| B7 | Interim/Bridge Housing for those Exiting Institutions | 1,778,000 |
| E6 | Countywide Outreach System | 6,395,000 |
| E7 | Strengthen the Coordinated Entry System | 26,000,000 |
| E8 | Enhance the Emergency Shelter System | 50,981,000 |
| E14 | Enhanced Services for Transition Age Youth | 5,000,000 |
| Total | | <u>\$ 140,650,000</u> |

Under Strategy A1, the funding is dedicated to shelter diversion services within Coordinated Entry System (CES) for families. This will allow CES for family providers to have specialized diversion staff and limited financial assistance to help families identify alternative housing arrangements outside the homeless system or return to a community of care outside of Los Angeles County.

Under Strategy A5, LAHSA will provide screening and a targeted intervention to single adults and youth who are currently at risk of becoming homeless and have been screened and identified as having high risk factors.

Under Strategy B3, LAHSA provided a time-limited intervention including financial assistance/subsidies and supportive services so that participants will be able to successfully maintain housing without long-term assistance.

Under Strategy B7, LAHSA increased the bed rate for these shelters specifically reserved for people exiting institutions allows for a specialized level of care at the facilities. These are safe, reserved, low-barrier and supportive 24-hour interim housing beds for persons exiting institutions but who are not in need of specialized and high-level care.

Under Strategy E6, it is aimed at improving outreach efforts to homeless individuals and families on the streets and in encampments in Los Angeles County. LAHSA developed a dispatch and tracking technology infrastructure for outreach requests, expanded Service Planning Area (SPA)-level and macro coordination of outreach teams through Coordinated Entry System Outreach Coordinators, launch and implemented Multidisciplinary Outreach teams to better assist unsheltered homeless individuals through expanded multidisciplinary outreach capacity, and support and expand general outreach staffing in all SPAs to further support outreach bandwidth.

Under Strategy E7, with the implementation of the Coordinated Entry System, all people in need of housing and services can be screened, triaged, and connected to resources, based upon service need and availability. LAHSA will expand regional coordination for each population system, create domestic violence liaisons, expand housing navigation, create housing location program, create training academy and provisions of technical assistance to agencies, create legal services system, and create a representative payee program.

Under Strategy E8, LAHSA increased the bed rate for LAHSA's existing shelters allow for higher quality services in the shelters resulting in better outcomes. Adding beds to the system decreases the gap in shelter services and these safe, low-barrier and supportive 24-hour crisis housing beds are designed to facilitate permanent housing placement.

Under Strategy E14, the funding will expand and enhance the resources to house and serve transitional age youth experiencing homelessness.

The County disbursed \$88,353,859 to LAHSA in FY 2017-18, and LAHSA's Measure H expenditures in FY 2017-18 totaled \$85,386,372 and were specific for the strategies listed below, except for \$97,881 (\$48,828 for Strategy B3 and \$49,053 for Strategy E8) in unsupported Measure H expenditures. The \$2,967,487 difference is recorded as deferred revenue by LAHSA.

| Strategy | | Measure H Disbursement by the County | Measure H Actual Expenditures | Difference |
|----------|---|--|----------------------------------|--------------|
| A1 | Homeless Prevention Programs for Families | \$ 1,941,697 | \$ 2,093,024 | \$ (151,327) |
| A5 | Homeless Prevention Programs for Individuals | 1,401,039 | 1,510,541 | (109,502) |
| B3 | Partner with Cities to Expand Rapid Re-Housing | 30,310,216 | 26,363,037 | 3,947,179 |
| B7 | Interim/Bridge Housing for those Exiting Institutions | 136,542 | 161,346 | (24,804) |
| E6 | Countywide Outreach System | 2,859,539 | 2,506,922 | 352,617 |
| E7 | Strengthen the Coordinated Entry System | 11,805,821 | 12,119,092 | (313,271) |
| E8 | Enhance the Emergency Shelter System | 37,660,574 | 37,699,148 | (38,574) |
| E14 | Enhanced Services for Transition Age Youth | 2,238,431 | 2,933,262 | (694,831) |
| Total | | \$ 88,353,859 | \$ 85,386,372 | \$ 2,967,487 |

- We verified that the service levels reported for each Department and Agency are accurate and that the funds were used for the specific purpose of each strategy.

Results

CEO

Based on our procedures performed for the two months of payroll/administrative costs and three transactions of non-payroll/program expenditures selected, the service levels reported by CEO were accurate and the funds were used for the specific purpose of the Measure H strategy. No exceptions were noted.

DCFS

Based on our procedures performed for the three months selected, the service levels reported by DCFS were accurate and the funds were used for the specific purpose of the Measure H strategy. No exceptions were noted.

DHS

For the three months of payroll costs, 59 non-payroll reimbursement contract costs, and 61 non-payroll fee-for-service costs selected, the service levels reported by DHS were accurate and the funds were used for the specific purpose of the Measure H strategies. No exceptions were noted.

DMH

Based on our procedures performed for the three months selected, the service levels reported by DMH were accurate and the funds were used for the specific purpose of the Measure H strategy. No exceptions were noted.

DPH

For the two months of payroll costs, ten non-payroll contractor costs, and 40 non-payroll recipient costs selected, the service levels reported by DPH were accurate and the funds were used for the specific purpose of the Measure H strategy, with the exception of \$17,353 in overbilling of Measure H expenditures for Strategy B7.

DPSS

For the two months of payroll costs and 40 transactions of non-payroll expenditures selected, the service levels reported by DPSS were accurate and the funds were used for the specific purpose of the Measure H strategy. No exceptions were noted.

PD

For the three months of payroll costs selected, the service levels reported by PD were accurate and the funds were used for the specific purpose of the Measure H strategy. No exceptions were noted.

WDACS

For the two months of payroll costs selected, the service levels reported by WDACS were accurate and the funds were used for the specific purpose of the Measure H strategy. No exceptions were noted.

CDC

Based on our procedures performed for the two months of payroll costs and 25 transactions of nonpayroll expenditures selected, the service levels reported by CDC were accurate and the funds were used for the specific purpose of the Measure H strategy. No exceptions were noted.

HACoLA

For the two months of payroll costs, and 124 non-payroll recipient costs transactions selected, the service levels reported by HACoLA were accurate and the funds were used for the specific purpose of the Measure H strategy, with the exception of \$218 in over-reported Measure H expenditures for Strategy B4.

LAHSA

For the three months of payroll costs and 105 non-payroll Measure H expenditures selected, the service levels reported by LAHSA were accurate and the funds were used for the specific purpose of the Measure H strategies, with the exception of \$97,881 (\$48,828 for Strategy B3 and \$49,053 for Strategy E8) in unsupported Measure H expenditures.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively on the eleven County Departments' and outside agencies' compliance with the Measure H, Ordinance 2017-001, Chapter 4.73 to the Los Angeles County Code – Transaction and Use Tax to Prevent and Combat Homelessness for the year ended June 30, 2018. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County of Los Angeles and the Chief Executive Office, the Department of Children and Family Services, the Department of Health Services, the Department of Mental Health, the Department of Public Health, the Department of Public Social Services, Public Defender, Workforce Development, Aging and Community Services, the Community Development Commission, the Housing Authority of the County of Los Angeles, and the Los Angeles Homeless Services Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

BCA Watson Rice, LLP

Torrance, CA
December 31, 2018